

September 5, 2002

To: Supervisor Zev Yaroslavsky, Chairman  
Supervisor Gloria Molina  
Supervisor Yvonne Brathwaite Burke  
Supervisor Don Knabe  
Supervisor Michael D. Antonovich

From: David E. Janssen  
Chief Administrative Officer

## **STATE LEGISLATIVE UPDATE**

### **State Budget Update**

The budget and related trailer bills are now available so it is now possible to provide additional details and analysis of the budget adopted by the Legislature. The entire package consists of 21 bills, only 7 of which are new, the remainder having been approved in June, and a technical budget clean-up bill, AB 692.

AB 425 is the Budget Act of 2002 and contains the appropriations that make up the State Budget. It was passed by the Senate on June 29<sup>th</sup> and concurred in by the Assembly on August 31<sup>st</sup>. Most of the trailer bills either amend AB 425 to reflect the budget compromise, provide revenues to pay for the spending level authorized, or make programmatic changes necessary to implement budget cuts, fund shifts, or non-tax revenue enhancements.

Today the Governor announced \$378 million in line item vetoes of appropriation items in the budget bills, (including \$143 million in Proposition 98 vetoes). The estimated loss to the County from these additional reductions totals \$46.5 million bringing the total loss to the County to approximately \$179 million when added to the impact of the budget bills. However, the single biggest loss is from the Federal Food Stamps error rate penalty, which is really a Federal issue, so that the actual loss from State actions is \$91 million. The breakdown by program, as well as the total loss from the Final Budget, can be found on Attachment A.

In addition to the actual loss of some \$91 million in State funds, the other significant impact from the adopted budget appears under the heading "Temporary Loans," the indefinite suspension of SB 90 reimbursements to local governments for State mandated services, including unpaid deficiencies. While the suspension amounts to a temporary loan (with interest) from the County to the State, the County will have to pay for these services with other funds until reimbursements resume. The estimated loss to the County for claims through the end of FY 2001-02 is approximately \$87 million. In addition, the County will have to do without as much as \$42 million in reimbursements for FY 2002-03 and any subsequent year in which the suspension remains in effect.

### ***The Impact of the Governor's Line Item Vetoes***

Attachment B contains the Department of Finance overview of the adopted budget, as well as a complete list of the Governor's line item vetoes. The vetoes and the corresponding reductions that impact Los Angeles County include:

- \$58 million in Medi-Cal Administration, a 6 percent reduction instead of the Governor's proposed 20 percent reduction;
- \$16.5 million in Food Stamps Administration, a 3 percent reduction instead of the Governor's proposed 20 percent reduction;
- \$27 million in the Child Welfare Services Augmentation, \$21 million in the Child Welfare Services cost of doing business adjustment, and \$5.2 million in Adoptions Program cost of doing business adjustment;
- \$2 million in Mental Health funding for Adult System of Care and \$13.8 million in Children's System of Care;
- \$5.4 million from the Early and Periodic Screening, Diagnosis and Treatment (EPSDT) Program, stating his intent to administratively establish a 10 percent county share of cost to cover the cost of program growth; and
- \$5 million of the \$25 million appropriated for trauma.

In addition to these reductions in direct funding to the County, the Governor's vetoes reduce or eliminate funding for a number of other items of interest including:

- \$8 million from the Santa Monica Conservancy's Proposition 40 funds;

- \$5 million from the Baldwin Hill Conservancy's Proposition 40 funds;
- the Legislature's partial restoration of Medi-Cal provider rates, stating his intention to administratively implement the January Governor's proposal;
- the expansion of Health Families coverage to parents;
- Express Lane eligibility linking Medi-Cal coverage for children to participation in the National School Lunch Program;
- the coverage bridge for children from Medi-Cal to Healthy Families, which is reduced to one-month rather than two; and
- \$23 million in remedial education services for CalWORKs participants in adult schools and regional occupation centers and \$9 million in Special Services for CalWORKs recipients in community colleges.

### **Budget Trailer Bills**

The following is a selective summary and analysis of the trailer bills that impact the County.

#### ***AB 2065 (Oropeza) Omnibus Tax Bill***

The final compromise rejected any tax increases in favor of "revenue enhancements." AB 2065 will yield \$2.4 billion in additional revenue during FY 2002-03 (as compared to \$3.9 billion in the Senate tax bill passed on June 30<sup>th</sup> and \$4.3 billion proposed by the Governor). Of the \$2.4 billion total, only \$900 million is permanent revenue. Its provisions include the following:

- \$1.2 billion suspension of the net operating carryover deduction for two years
- 285 million Federal conformity on bank bad debts
- 400 million increase in the withholding rate for stock options and bonuses
- 225 million increase in the withholding rate for certain real estate transactions
- 170 million suspension of the teacher tax credit for one year
- 140 million improved collections on high risk/delinquent accounts

***AB 593 (Oropeza) Amendments to the Budget Act of 2002 (AB 425)***

Because the Omnibus Tax Bill raised \$1.5 billion less than the Senate tax bill which financed AB 425, the final compromise had to cut at least that amount from the appropriations in AB 425 to bring the budget into balance. With time running out before the scheduled end of the session, the Legislature quickly balanced the budget through a \$1.7 billion reduction in spending that did not cut any of the programs that the Democrats had sought to protect.

The compromise solution consists of three parts. Some \$700 million in Proposition 98 payments that would otherwise have been made in FY 2002-03 will be shifted to the next fiscal year, resulting in a one-time savings this year. In addition, the Administration is authorized (but not required) to reduce up to 5 percent from any appropriation for State operations to "reflect a total reduction of up to \$750,000,000." The Director of Finance is directed to develop a plan to achieve these savings and identify whether each cut will have a programmatic impact or is excess and unnecessary spending. The plan, which must be reflected in the FY 2003-04 Governor's Budget, will identify any statutory changes needed to achieve the savings, the programs that will be affected, and the timing of the reductions. Needless to say, if the Administration waits until the budget submission in January to begin the cuts, with only half the fiscal year remaining, the effective annualized cut will be \$1.5 billion. And even if they act sooner than that, the cuts will have to be substantially more than \$750 million. Finally, AB 593 directs the Governor to implement by Executive Order an early retirement plan consisting of an additional two years of service credit, resulting in an estimated savings of \$285 million.

AB 593 also contains a spending cap for FY 2003-04 limiting general fund expenditures to total revenues. While some have criticized the cap as meaningless because it does not prevent the Legislature from raising taxes to increase spending, others claim it will prevent the use of borrowing that is so much a part of this year's budget solution. In any event, the cap is statutory and can be amended by a majority of the Legislature.

***AB 442 (Committee on Budget) Omnibus Health Trailer Bill***

AB 442 makes numerous law changes required to implement the funding reductions in health programs in the Budget Act. Changes of interest to the County include:

- an increase in the disproportionate share hospital fee from \$29.6 million to \$85 million which will cost the County \$11.2 million;
- \$24.8 million in Proposition 99 funds to continue a rate increase for emergency medical physicians providing services under the California Health Care for Indigent Persons Program;

- a requirement that the State Department of Mental Health, in consultation with county agencies, strengthen managed care principles in the EPSDT to reduce program growth by \$30 million without reducing services;
- continuing for one year the Mental Health supplemental rate payment for community treatment facilities serving children in foster care with a serious mental health problem;
- extending for two years the sunset date for providing supplemental Federal funds to certain teaching hospitals for medical education and training;
- reducing the Medi-Cal provider rate increase provided in 2000, except for the California Children's Services Program, the services of home health agencies, non-emergency medical transportation, and family planning, for a savings of \$55 million;
- rescinding the January 2000 and the July 2002 pharmacy reimbursement adjustment;
- allowing children, but not adults, to obtain up to two dental cleanings and oral exams a year under Medi-Cal;
- deferring implementation until July 1, 2003 of Express Lane Eligibility that will automatically enroll children under six who receive free school lunches in Medi-Cal;
- establishing a pre-enrollment "gateway" under the Child Health Disability Prevention Program to screen applicants for Medi-Cal and Healthy Families eligibility;
- eliminating the sunset date for the personal care option under the In-Home Supportive Services Program;
- deleting a requirement for county social services departments to track certain Medi-Cal applications through the single point of entry process;
- deleting the sunset on Medicare Discount Drug Program for seniors.

***AB 444 (Committee on Budget) Omnibus Social Services Trailer Bill***

AB 444 makes numerous law changes required to implement the funding reductions in social services programs in the Budget Act. Changes of interest to the County:

- provide for quarterly reporting by recipients for the CalWORKs and Food Stamps programs;

- reinstate “senior” parent deeming under CalWORKs;
- create a pilot to permit counties to provide mental health services to CalWORKs recipients using their CalWORKs allocation as match;
- delay the CalWORKs recipient cost-of-living adjustment until June 1, 2003;
- delay the cost-of-living adjustment for the State share of SSI/SSP for elderly and disabled individuals until June 1, 2003;
- allow the State to utilize unused county CalWORKs performance incentive funds to create more equity in the allocation of employment services funds in the budget year, provide a reimbursable loan of \$600 million to the State, and serve as a reserve fund to meet federal cash management requirements;
- extend the sunset on the County’s Internet-based health and education passport system for foster children;
- permit the use of Federal Adoption and Safe Families Act funds for a broader range of adoption services;
- reduce the documentation required for the Adult Protective Services program;
- reduce by half the incentive payments to counties for identifying CalWORKs fraud;
- suspend for 2002-03 the county incentive program for achieving child support standards and indefinitely suspend incentives for obtaining health coverage;
- provide a one-time proportionate distribution of Federal FY 2002 Community Services Block Grant funds and a phased in increase in the minimum amount for small agencies;
- focus the Drug Court Partnership Program on convicted felons;
- require hospitals seeking a deadline extension on seismic requirements to publicly state their reason and require a public comment process.

***AB 692 (Aroner) Social Services Clean-Up Bill***

AB 692, as amended on August 29, 2002, makes various technical changes to the Omnibus Social Services trailer bill, the most important being to delete language which would have required counties to pay the child support automation penalty.

***AB 3000 (Oropeza) Omnibus General Government Bill***

This bill, passed by the Senate on June 30<sup>th</sup> and eventually concurred in by the Assembly, contains a number of provisions of interest to the County including:

- a 10 percent surcharge on specified civil filing fees and a 20 percent surcharge on fines and penalties for certain crimes, to be in effect until July 1, 2007; (these surcharges are in addition to those contained in **SB 1732 (Escutia)** which implements the recommendations of the Trial Court Facilities Task Force)
- authorization for up to \$92 million in lease revenue bonds to replace general revenue funds for a regional crime lab at California State University Los Angeles;
- an increase in the maximum fee that the State Water Resources Conservation Board can assess local governments and businesses from \$10,000 to \$20,000;
- various changes in the SB 90 claims process to require claims to be filed in a more timely fashion, eliminating the dollar limit on the penalty for late filing, deducting interest owed for overpayments from subsequent payments, increasing the minimum claim to \$1,000, and directing the Controller and the Legislative Analyst to review and report on whether existing mandates should be repealed, suspended, modified or continue to be funded.

***AB 1768 (Oropeza) Omnibus General Government Bill Amendments***

Two provisions of AB 1768 are of interest to the County:

- the ERAF transfer required of local redevelopment agencies that was initially proposed to be for two years was limited to FY 2002-03; and
- not more than \$15 million of the Federal Homeland Security Funds appropriated in the State budget can be awarded to State and local public safety agencies for specified equipment for emergency radio communication systems.

***ACA 11 (Richman) Twenty-First Century Infrastructure Investment Fund***

If approved by the voters in 2004, this constitutional amendment would dedicate up to 3 percent of General Fund revenue starting with 1 percent in FY 2006-07 increasing to 3 percent over time, contingent on the condition of State finances. Fifty percent of the funds would be allocated to local government projects pursuant to legislation.

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***HR 96 (Wesson) Commission on Structural Challenges to Budgeting in California***

The Speaker has established a commission composed of 12 Members, evenly divided between the parties, "to identify and examine issues and problems that contribute to difficulties in enacting a state budget," including the stability and volatility of revenues, expenditure requirements resulting from legislation, initiatives and ballot measures, court decisions and federal mandates, and the impact of expenditure limits. The commission is to make its recommendations, including potential changes to laws or the Constitution, by May 1, 2003.

We will continue to keep you advised of any new developments.

DEJ:GK  
ML:JR:md

**Attachments**

c:     Executive Officer, Board of Supervisors  
       County Counsel  
       All Department Heads  
       Legislative Strategist  
       Local 660  
       Coalition of County Unions  
       California Contract Cities Association  
       Independent Cities Association  
       League of California Cities  
       City Managers Associations  
       Buddy Program Participants